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THE WHITE HOUSE

REMARKS OF THE PRESIDENT
AT A DINNER
OF THE CONFERENCE BOARD

SHERATON PARK HOTEL

8:07 P.M. EST

Sandy Towbridge, officers, members, and guests of the Conference Board:

It is a great privilege and a very high honor to have the honor of participating this evening. I have had a number of fond memories of previous experiences and exposure to the Conference Board, and each and every one has been a great experience, and I thank you for tonight as well as for those in the past.

I do welcome this opportunity to meet and to speak with this leadership group representing the American business community and to discuss, as I see it, some of our common problems. In that regard, your invitation to be here tonight could not have been better timed.

Last week, as some of you may have noticed, I spoke to the American people and to the Congress about the State of the Union and in the circumstances in which we live today, the State of the Union really boils down to the state of the economy.

I outlined during those several speeches a fair and a balanced program of economic measures, a \$16 billion tax cut, a ceiling on increases in Federal salaries and cost of living related payments, and a moratorium on new, non-energy Government spending programs.

In the State of the Union, I urged the Congress to begin the active consideration of these proposals at once so that the jobless, hard-hit industries and beleaguered American consumers and taxpayers can begin benefitting from these proposals at the very earliest opportunity.

In this connection, if I might, let me address myself to one of the aspects of my program that has stirred some controversy. I have said repeatedly that the main burden of this recession must not fall upon those least able to afford it -- our low income citizens. But, at the same time, we must take care not to penalize middle income citizens just because they have been more financially successful than others.

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I am mindful of the criticism from some quarters of my proposal for a proportionate tax rebate for middle income as well as lower income citizens. Some critics contend, of course, that rebates should only go to those with low incomes.

I happen to believe it would be a mistake to seek a solution to the problems of recession by penalizing middle income Americans. Nothing would more effectively put a lid on the ambitions and enterprise and hard work of this important segment of Americans to continue up the economic ladder for the sake of their children, if not themselves.

In the process of developing my remarks for tonight, we did a little research and here are some facts that I think are worthy of your consideration.

Half of the families in this country today earn between \$10,000 and \$25,000 per year. One-third have earnings in excess of \$15,000 per year. Although it is a little known fact, more than half of the personal income taxes in this country are paid by people with incomes over \$20,000 per year.

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What I am saying, or trying to say, is this -- and I want to say it so there will be no misunderstanding -- we need fair tax relief. The tax relief that will help not only the poor but also the middle class, the skilled workers, farmers, teachers, reporters, editors, secretaries, sales people, truck drivers, policemen, firemen and other hard-working middle income Americans who have seen their earnings and future eroded by inflation and recession.

So, in short, let us not strip incentives from these upward bound millions who are struggling to improve their lives and their children's lives by serving notice that America no longer regards those who make it from low to middle income status and beyond.

However, I really did not come here this evening simply to repeat my State of the Union Message, and I won't. In this forum, I won't discuss the past. It is beyond our control. Instead, I will discuss where we are headed, because there, individually and collectively, we have a real choice.

To use an economic term, I believe that there are several vital trend lines running through the American Government and the American economy that are headed very definitely in the wrong direction, and the time to redirect them is right now. That is what I meant when I referred to the new directions in the economy, a series of critical long-range changes that can put our domestic house in order and prepare us adequately for the challenges of the future.

Tonight I will address myself specifically to three of the main areas where the trends, in my judgment, need to be redirected: Federal spending, defense policy and profits and investment. All three happen to be very closely related. All three, and the way we approach them, will vitally affect the quality of life and government in America in the years ahead.

Foremost among these is Federal spending. More than a generation ago, a trend was set in motion by politicians and pundits who began to advocate massive Federal spending as a sure and certain way to social progress. This massive spending took the form of income redistribution, redistribution of programs such as food stamps, Social Security, Federal retirement benefits and so forth, programs under which a qualified citizen is automatically entitled to specific benefits.

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These programs, sometimes known as transfer payments, will total \$138 billion in fiscal year 1975 -- that is this current fiscal year -- and will constitute 44 percent of our 1975 fiscal year expenditures. In terms adjusted for inflation, these payments have been growing at an annual rate of 9 percent for the past 20 years.

In 1955, these programs were still only a very modest part of our total Federal budget, but even small numbers become large after compounding 20 years of 9 percent per year.

The continuation of these programs at anywhere near this rate of growth, which is more than twice that of the Gross National Product, in my judgment, is very ominous. In fact, even if other sectors of the Federal budget and state and local expenditures grow modestly in real terms, this trend will mean that within the next two decades government expenditures at all levels could eat up more than half of our Gross National Product. They already account for close to one-third.

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I ask you to reflect for just a moment, think of what this would mean to the average American. If government were to take more than half the Gross National Product, this would be a profoundly different country. It would be a terribly different country in which we would live.

The tax burden of the average American family and business would be staggering. To control the economy that much, government would have to exert ever-increasing direction over the daily lives of its citizens.

Much of our incentive, much of our enterprise, and much of our freedom as I see it would be stifled in private business, and private business efforts would be largely stifled. It would be my best judgment that our economy would stagnate.

We cannot allow this to happen. I think we have to turn this trend around. To the extent that I possibly can, I intend to do so.

In that regard, I repeat here tonight the pledge I made to the Congress last week -- except for energy, I will ask for no new spending programs and will fight to reduce the growth of Federal spending before it is too late.

That sounds very logical, and I happen to think it is. In pure economic terms, it definitely is, but in the real world where politics, idealism, emotionalism and confusion all mix together with economics, I must confess it is not as easy as it might seem.

The American people are very generous. We are a compassionate people, and with justifiable pride we have prided ourselves on our responsiveness to those in our society less fortunate than ourselves.

But as we are now beginning to realize, we cannot give away any more than what we have. Whenever I make that statement, I am reminded of something I have used in speeches before, but I think it is perfectly appropriate here: A government big enough to give us everything we want is a government big enough to take from us everything we have.

The government cannot, in my judgment, overspend year after year without doing drastic damage and harm every one of our citizens.

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Now, I fully realize that many in the Congress will find it very difficult to support spending limitations and programs that they have advocated and sincerely believed in over the years. But in the crisis that we face right now, I think it has to be done.

I might say, to provide some incentive and cooperation, as a starter I intend to invite to the White House at the earliest convenience members of the new budget committees of the Senate and House, to confer with me on the problems that I have outlined.

To continue the course we are on is wrong. We definitely need a re-direction, and this brings me to the second of the three trends, the direction of defense policy.

There is a national line of thinking in America today, as widespread as it is false, that all we need to do to get Federal spending back in line is to hack away at the defense establishment.

There is nothing new about this approach. Unfortunately, it is an error that seems to be endemic to Western democracies in times of peace.

Again and again, while totalitarian powers of one kind or another have maintained or expanded their military strength in peace time, the democracies, primarily in the West, have neglected strong national and allied defense, hoping for the best, but seldom preparing for the worst.

In our own case, defense outlays have remained virtually level in constant dollars from 1969 to 1974. Since 1969, our military manpower has been reduced by over 40 percent. If I recall the figures correctly, about one million two hundred thousand less in active duty in our military.

In 1968, for example, at the peak of the Vietnam War, personnel costs for the Department of Defense were only 42 percent of total military expenditures. This fiscal year, 1975, personnel costs have risen to 55 percent of the \$85 billion defense budget; in other words, from 42 to 55 percent in the short span of approximately six to seven years.

This dramatic shift and how we allocate our defense dollars has prevented us from doing all we should in research and development and the procurement of modern weapons and equipment. In many areas, as a consequence, our military services are faced with a very serious bloc obsolescence in arms as well as material.

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You know, the fashion is to deride excessive defense spending. The fact of the matter is that defense outlays have been a dwindling part of our Gross National Product, falling from an 8 or 9 percent in 1969 to less than 6 percent by 1976.

If the current declining defense trends continue, we will soon see the day, and so will others, when our country no longer has the strength necessary to guarantee our freedom, to guarantee our security in an uneasy world.

We cannot let this happen. The defense budget I am about to propose to the Congress will not let this happen, and this brings me to the third area of discussion this evening.

For just as a strong defense establishment protects our way of life, a strong, free economic system provides the goods, the jobs and the chance for upward mobility that may have made us a land of opportunity and a great land of abundance.

But if our economy is to grow and prosper, we have to encourage investment. A rising standard of living implies rising output per man hour, and that requires even more investment per worker.

To support every new job, industry must now add more than \$25,000 of equipment and plant. And that, of course, requires adequate profit and adequate investment.

Profit margins have been gladly declining since the end of World War II. Cash flow, as a consequence, has been less than adequate, especially in recent years. This has meant that corporations have had to borrow very heavily to finance capital investment.

The financial capability of many corporations has accordingly been strained. All of this is especially discouraging since output per man hour has fallen steadily for the last two years. If we are to maintain our productivity, we must provide each worker with the machinery and the equipment he needs to do his job with pride and with efficiency.

But in order to ensure adequate investment, we must end the downward trend in corporate profitability.

My tax program, which was submitted to the Congress last week, moves very directly in this direction by leaving more business earnings in the private sector where they can be invested in increased productivity and new jobs.

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I call on you with as much hope and fervor as I can to join with me to change these basic trends in our economy, and the first step is to get the process of Congressional action started now.

If I might interpolate for just a minute, I submitted a comprehensive, action-oriented program, both for the economy and for the solution of our energy problems. I recognize that in the Congress, with 535 Members, House and Senate, there can be honest disagreements as to this part or that part.

But, it seems to me that the Congress, individually or collectively, if they disagree, should not nit-pick, should not pick on this part or that part. If they do not agree, they ought to step up with a comprehensive alternative rather than try to move in a backward way.

I can imagine nothing more disappointing to the American people than to have the Congress deprive the President of the United States of a capability to force action both in the economy and in energy, as some Members of Congress are apparently willing to do.

And let me say, if I might, I am going to sign the Declaration tomorrow to force action by the Congress so that the country will have action, not limitations, in the months ahead.

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I happen to believe -- as you can tell, I guess -- that the economic and energy programs that I proposed to the Congress can turn and will turn, in my judgment, a period of danger into an era of opportunity. Through it, we can change our course. We can help put the unemployed back to work. We can spur increases in productivity and output. We can achieve energy independence, and through our own renewed economic vitality, we can help bring prosperity and stability to a troubled world.

I am old enough to know that we have faced hard times before, individually and collectively and as a Nation, and as I look back over the pages of history, in the time in which I have lived, we have met those challenges.

I was thinking this afternoon, I can remember a few Christmases in my own youth when about the only thing we had to offer each other as a family was the love we happened to feel in our hearts and the faith that together we could see things through to a better world.

You know what it did? It made us work harder, study harder and, in a way I think, it brought out those kinds of qualities of strength and character that none of us in those days thought we had. Oh, I know this may sound a bit nostalgic -- it does not have much economics in it -- but if the economic problems could be solved by dry theories, there would not be any economic problems left, just a lot of surplus theories and a lot of unemployed economists looking for new ways to ply their trade.

I happen to believe in a free economy. I believe it unquestionably has the stamina and the resiliency to recover if we act sensibly and decisively and promptly to get through the present crisis. I said, in the State of the Union address, that there is a vital need for partnership. There must not only be partnership between the Congress and the Executive Branch, but also between the Federal Government and the American people. I also called for a continuing strong program of voluntary action. I would like to emphasize that particular point again.

The plans I have suggested for the economy and energy rely on the freedom of choice, freedom for every American to decide how to conserve on the one hand while still meeting his basic needs. Without the voluntary cooperation of every American, no government plan can really work. It is just that simple.

Each of you, as an outstanding member of the American business community, has a key part to play in this great national undertaking. We need your knowledge, your resourcefulness, and most of all, your faith and your confidence.

With faith in ourselves and confidence in our country, we have performed what amounted to miracles in the past. We need no miracle today, just the kind of calm willingness to work and sacrifice which has carried us through much tougher times before, and I happen to think it will again.

Together, we can turn these misdirected trends around and see America on a new course towards a prosperity and a period of progress.

Thank you very kindly.

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(AT 8:40 P.M. EST)